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THE CITY AUDITOR'S OFFICE

With a total capital and operating budget of almost \$1 billion dollars a year, the San Jose City Council needs an effective means to monitor the use of tax dollars and City department activities and programs. As an independent audit function, the Office of the City Auditor plays an integral role in the oversight process. Findings and recommendations developed through the audit process have helped save tax dollars, increased revenue, and improved the management of City programs. Additionally, our independent reviews have served as an important objective information source for the City Council, City management and the general public.

The City Auditor is appointed by and reports to the City Council. Two of the Council's standing committees, Finance and Rules, interface directly with the City Auditor. The Finance Committee reviews and approves the City Auditor's annual audit Workplan, subsequently reviews audit report findings and recommendations, and monitors the implementation of recommendations. The Rules Committee is responsible for approving City Council member or Administration requests for audit services as they arise during the year.

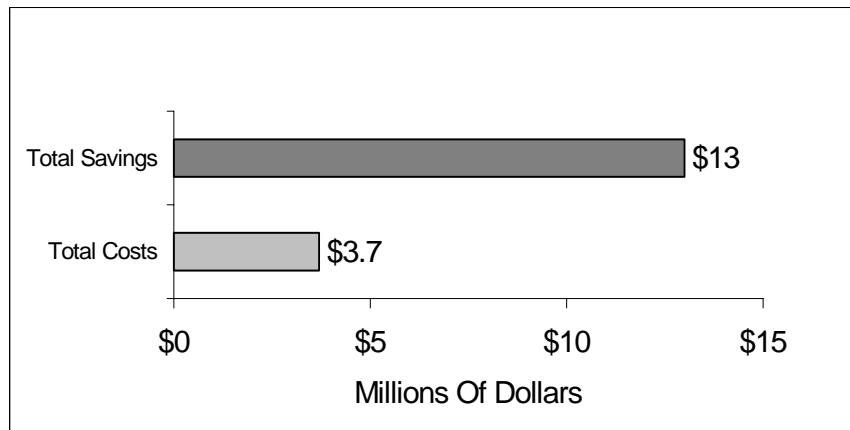
Section 805 of the San Jose City Charter establishes the Office of the City Auditor and outlines the Auditor's primary duties as follows:

- Conduct or cause to be conducted annual post audits of all the City's fiscal transactions including the examination and analysis of fiscal procedures and the examination, checking and verification of accounts and expenditures;
- Conduct performance audits, as assigned by the Council, to determine whether 1) City resources are being used in an economical, effective, and efficient manner; 2) established objectives are being met; and 3) desired results are being achieved;
- Conduct special audits and investigations as assigned by the Council;
- Submit a monthly report to the City Council of the Office activities, findings and recommendations to improve the administration of the City's fiscal affairs; and
- Perform other such auditing functions consistent with the Office's charter and submit reports as required.

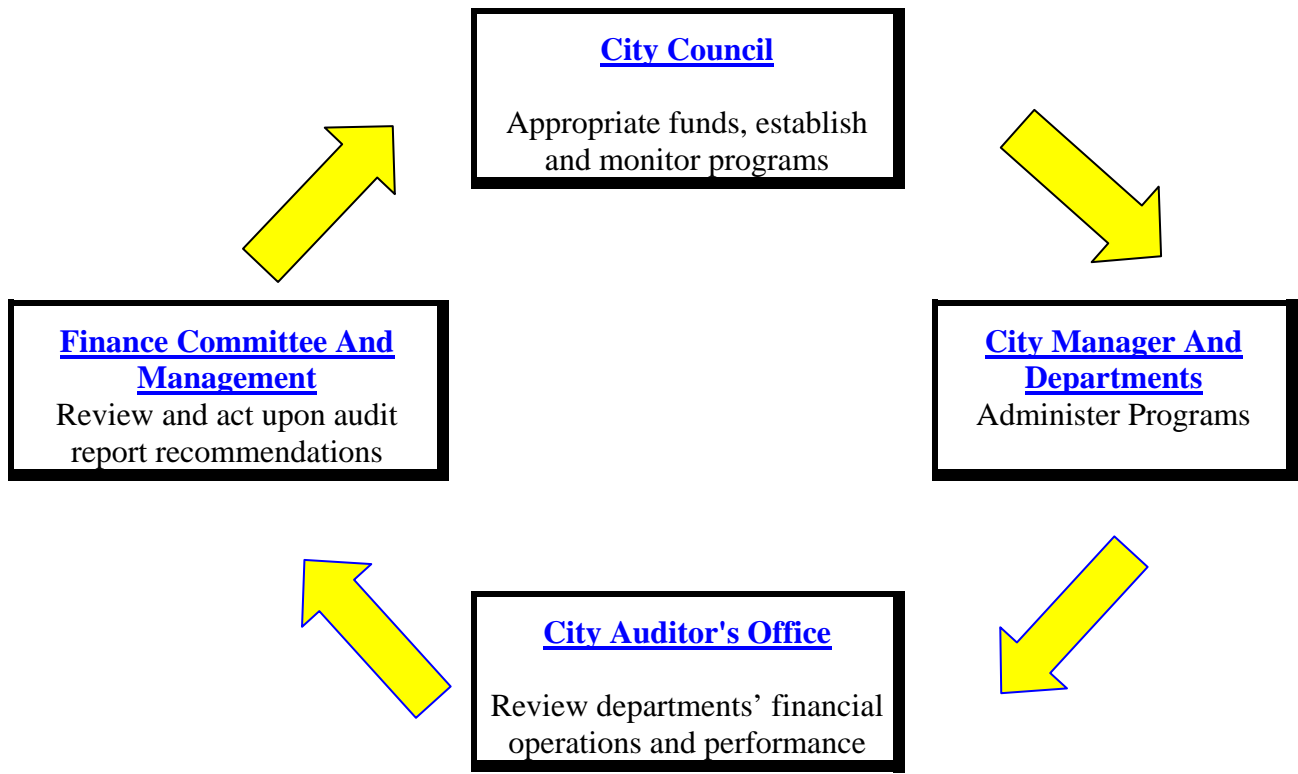
Section 805 also grants the City Auditor access and authority to examine all records of any City department, office or agency, except those of an elected official.

The goal of the Office of the City Auditor is to promote accountability to the public and to improve the economy, efficiency, and effectiveness of City government. Our principal objective is to identify \$3 in savings or increased revenue for every \$1 of audit cost. As TABLE I shows, the Office of the City Auditor exceeded this standard for the period from May 1985 through April 1989.

TABLE I
SAVINGS vs COSTS
MAY 1985 - APRIL 1989



ROLE OF AUDITING IN CITY GOVERNMENT



Office of the City Auditor audits and reviews provide an insight into City departments and their programs. Such activities are but one step in the process of establishing City programs, evaluating their performance, providing the City Council and the Administration with needed information, and making any necessary changes to ensure that City programs are as efficient and effective as possible.

ORGANIZATION AND STAFF

Over the four-year period, the City Auditor's Office has averaged 18 authorized full-time positions, including both audit and administrative staff. The Office budget has averaged slightly more than \$1 million per year, with approximately 90% spent for salaries and benefits. Due to a City-wide hiring freeze and the difficulty of finding qualified people, the Office has operated at a reduced staffing level for the last two years.

The members of the City Auditor's Office have diverse educational backgrounds and work experience. Staff educational backgrounds include accounting, business administration, civil engineering, economics, education, finance, and public administration. Further, several staff members have advanced academic degrees and/or professional certifications such as Certified Public Accountant and Certified Internal Auditor. Staff members have had previous experience in public accounting; advertising; aerospace; banking; data processing; electronics; city, state and federal government; health; industrial relations; management consulting and retail. This wide range of training and experience brings a broad perspective to the variety of audit work the Office conducts.

Staff have held memberships in the following professional organizations: American Institute of Certified Public Accountants, American Society for Public Administration, American Management Association, American Society of Personnel Administrators, EDP Auditors Association, Governmental Finance Officers Association, Institute of Internal Auditors, and the Western Intergovernmental Audit Forum. The City Auditor is on the Board of Governors of the San Jose chapter of the Institute of Internal

Auditors, a member of the prestigious American Institute of Certified Public Accountants' Members in Government Committee, and Chairperson of the Western Intergovernmental Audit Forum.¹

In general, auditors work in teams of two or more depending on the workload and the projected time frame of an assignment. Auditors are assigned to projects on the basis of the particular audit skills needed to perform the work. Typically, a fiscal and a performance auditor will work together on a team to ensure the team collectively possess the professional proficiency required to accomplish the audit task.

Our current staff members include:

Professional Staff

Gerald A. Silva - CPA

Jeffrey L. Mikles - MA

Nestor S. Baula - CPA, CIA

Juan E. Bettaglio - MBA

Rene E. Bulan

Fred B. Casuga

Charles D. Christensen, Jr. - CPA, CISA

Michael A. Edmonds - CIA

Sharon W. Erickson

Ruth Garcia

Robin A. Klenke

Dominador S. Melendez - CPA (Pending)

Cynthia L. Newman

Taylor L. Willingham

Administrative Staff

Bonnie L. Williams

Mary N. DaRosa

Minh Tran Nguyen

¹ The Western Intergovernmental Audit Forum is a consortium of Federal, State and Local Auditors in California, Arizona, Nevada and Hawaii.

MAJOR DEVELOPMENTS IN THE OFFICE OF THE CITY AUDITOR

During the last four years, the City Auditor implemented numerous changes to improve the Office's operational effectiveness and efficiency. The following describes the changes concerning auditing emphasis and strategy, staffing and training, office renovation, reporting, and Office performance evaluation.

New Auditing Emphasis

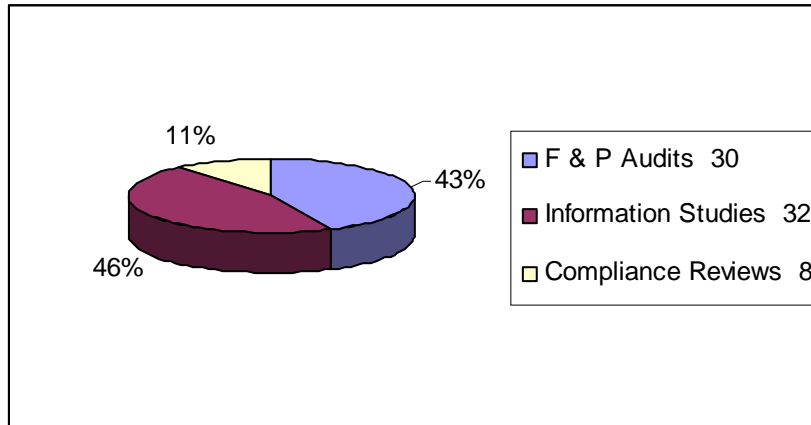
Upon hiring, the City Auditor took immediate action to improve the efficiency and effectiveness of the Office's limited resources. He proposed to conduct the chartered fiscal audits more efficiently and to secure additional staff to conduct expanded scope performance audits.

Initially, the City Auditor reduced the time spent on the charter-required fiscal audits by changing from a continuous to a periodic audit cycle. These audits include reviews of payroll, non-personal services expenses, cash and revenue accounts, and parking revenue. In addition, the use of statistical sampling on these periodic reviews has resulted in improved accuracy and more efficient use of staff time.

Besides changing the audit cycle, the City Auditor redirected his remaining and new staff resources to conduct program performance audits and special studies. As a result, over the first four-year contract period, staff completed 30 fiscal/performance audits, 32 information/special studies, 8 compliance reviews, and various other activities including the charter-

required audits. TABLE II graphically displays the types of reports issued during this contract period.

TABLE II
REPORTS ISSUED
May 1985 - April 1989



Beginning on page 71, Schedule 1 summarizes the City Auditor's activity costs and results for the period May 1, 1985 through April 30, 1989.

Change In Auditing Strategy

During 1987, the Auditor's Office changed its auditing strategy to reflect new AICPA pronouncements. The AICPA Auditing Standards Board proposed nine new Statements of Auditing Standards which were characterized by some as revolutionary for the audit profession. Of particular interest to this Office was the new statement addressing the auditor's responsibility to evaluate the auditee's internal control structure. This statement first requires the auditor to understand the auditee's overall control environment, including specific accounting and administrative

controls. Next, the auditor must identify and test for potential threats (undesired events) that could occur if adequate controls are absent or ineffectively implemented. To effectively implement this audit strategy, the Office uses a specialized software package called Riskbuster. The software enables the auditor to graphically relate potential threats or risks to an auditee's internal control system.

Based on the risk assessment strategy, the City Auditor has provided numerous training sessions to outside professional audit organizations. As a result, we believe the Office of the City Auditor is a leader in the use of risk assessment as an audit strategy.

Office Staffing And Training

The City Auditor increased staffing levels and started a formal training program. To implement the expanded scope of performance audits, the City Council authorized the City Auditor six additional staff. These positions included: one Assistant City Auditor, four Senior Program Performance Auditors, and one Word Processor Operator. New staff were hired, but over the four-year period turnover reduced the staffing level at times by as many as five staff members. As a result, productivity and timely audit completion have been affected.

The City Auditor recognized the need to upgrade the Office's professional capabilities through internal and external training. A training needs assessment was initiated to better match individual needs with available training resources and programs. The needs assessment is conducted annually. Training courses attended have addressed financial

auditing and accounting standards; financial, performance and EDP auditing techniques; interviewing, writing and supervisory skill development; computer software training; and time management.

Office Renovation

During the first year, the Office was renovated to provide additional room and resources for the new staff. Several interior walls were removed resulting in an “open space” motif. The City Auditor purchased new office furniture, equipment and telephones which boosted both productivity and morale. The Office also replaced its outdated word processing equipment with advanced computers and laser printers to provide more professional looking reports much faster. Further, the Office added a high speed multifunctional copier to accommodate the thousands of copies the Office produces every year. Moreover, during the four-year period, the Office purchased computers and the latest software for every staff member. The new hardware and software have enabled the auditors to record and analyze data in a fraction of the time it would have taken to do manually.

Reporting

To instill a new office image, the City Auditor revised the report covers, format and text. The new reports readily identify major findings, conclusions and recommendations. Consequently, the changes have resulted in a more professional looking product that is easier and more efficient to read.

Office Performance Audit

The City Charter requires the City Auditor's Office to undergo a peer review performance audit on a biennial basis. In June 1987, the Office underwent its first such performance audit. A management representative from the California Auditor General's Office performed the review according to standards established by the National State Auditors Association. This initial audit focused on the Office's formal written audit and office administration procedures and controls. The purpose of the audit was to determine if the procedures and controls provide reasonable assurance that City Auditor audits will meet the specified standards.

Following the audit, the Auditor General issued two letters (APPENDIX D and E). One letter expressed an overall unqualified (clean) opinion on the City Auditor's system of quality control. The other letter identified opportunities to improve the Office's system of quality control, all of which have been implemented. As a result of the first audit, we are confident that our audits meet generally accepted governmental auditing standards.

The Office's second performance audit will be conducted this year by an outside auditing firm. The audit focus will be to determine if, in fact, our audits are being conducted effectively, efficiently and according to applicable auditing standards.

AUDITING CITY DEPARTMENTS AND PROGRAMS

The City Auditor's Office conducts expanded scope audits according to audit standards promulgated by the United States General Accounting Office (APPENDIX B). The three types of audits are financial and compliance audits, economy and efficiency audits, and program results audits. Economy and efficiency, and program results audits are commonly known as performance or operational audits. The Office also reviews EDP systems according to U.S. General Accounting Office audit standards and produces special reports that present objective information on issues.

Financial And Compliance Audits

An outside auditing firm and the City Auditor's Office both conduct financial and compliance audits of the City. In accordance with the City Charter, an outside independent public accounting firm performs the annual audit of the City's financial statements. This audit determines whether the financial statements fairly present the City's financial condition according to generally accepted accounting principles. The annual outside audit also includes reviews to determine City compliance with laws and regulations, particularly for those programs receiving federal funding.

The City Auditor's Office also conducts financial and compliance audits, but the nature and scope of these audits differ significantly from the outside audit of the City's financial statements. The primary emphasis of financial and compliance audits the Office conducts is to assess whether the City's internal control systems ensure the following:

- Resources are used in accordance with laws, regulations, and policies;
- Reliable data are obtained, maintained, and properly disclosed in financial and management reports; and
- Resources are safeguarded against loss due to fraud, theft, errors, and mismanagement.

These audits provide City management with the objective information required to ensure that the internal control systems are working as intended.

Operational And Performance Audits

Operational and performance audits evaluate whether City programs operate in an efficient and economical manner and are accomplishing their intended objectives. Audits that focus on program efficiency typically evaluate the reasonableness of program costs relative to the results of services produced. Auditors determine if a program is using its resources, such as personnel, property and space, in a manner that avoids duplicating effort and overstaffing, while maximizing benefits in relation to costs. Reports make recommendations to management to correct inefficient practices and/or improve procedures to maximize resource utilization and productivity.

Other operational or performance audits review the effectiveness of programs in achieving desired levels of performance or results. These audits are termed program results or effectiveness audits. Major elements of a program results audit include determining if a program has established appropriate goals and objectives, reviewing the adequacy of management's

system for measuring success, assessing the extent to which desired levels of results are achieved, and identifying factors that inhibit satisfactory performance. Program effectiveness audit reports generally make recommendations to change management systems, City policies, and Ordinances.

Auditing EDP Systems

EDP or information system audits consist of reviewing general and specific application controls of the City's electronic data processing systems. These audits determine whether controls comply with management and legal requirements, and provide information that is timely, accurate, reliable and complete. EDP audits also assist management in ensuring that automated systems 1) contain built-in controls for proper operation, 2) provide a trail for tracking transactions through the system, and 3) classify data accurately for inclusion in the City financial statements.

Special Reports

The City Auditor's Office frequently receives information requests on issues that do not require detailed audit review but need thorough and impartial data collection, analysis and reporting. The Office produces special studies to address these information needs. Special studies and reports are subject to the same rigorous audit methodology regarding data collection and quality control reviews. Special studies are intended to provide timely and objective information to the City Council, the Administration, and the public.

Annual Workplan

In advance of each fiscal year, the City Auditor independently selects the audits to be performed in the forthcoming year and incorporates them into an Annual Workplan. Before formalizing the proposed workplan, the City Auditor requests input from the City Administration and the City Council on suggested audit topics. During June, the City Auditor submits the proposed workplan to the Rules Committee for approval.

In addition to Workplan audits, the City Auditor's Office conducts unscheduled audits as requested by City Council members or the City Manager. These requests are approved subject to the procedure shown in APPENDIX C.

Finally, the City Auditor reports Workplan progress monthly to the Finance Committee, City Council, and the City Administration.

BENEFITS TO THE CITY OF SAN JOSE

The City Auditor's expanded audit approach has benefited the City in a variety of ways. Some audits have resulted in recommendations to reduce costs or increase revenues. While others have not identified measurable monetary benefits, they have resulted in recommendations to increase effectiveness, use resources more efficiently, and improve internal controls. The numerous special studies have provided objective, timely information to the City Council, City Administration and the public. Beginning on page 71, Schedule 1 summarizes the results of City Auditor activities for the four-year period from May 1985 through April 1989.

Cost Savings And Increased Revenue

Audit work has revealed that the Administration's operations are not always managed as efficiently and economically as possible. City Auditor findings and recommendations often have addressed ways to reduce cost or increase revenue.

For example, the performance audit of the City's utility tax collection process revealed instances where the City did not efficiently monitor the tax collection process. Finance did not promptly collect overdue taxes and late payment charges. Further, Finance allowed some invalid tax adjustments. As a result, we estimated that the City potentially lost approximately \$300,000 during 1985-86.

Our audit of the City's retirement plans and the City and Redevelopment Agency's cash management activities disclosed

opportunities to increase retirement fund earnings and reduce General Fund administrative and overhead costs. We found that if the plan's equity portfolio had been invested in a passive index fund over the five-year period reviewed instead of with a variety of unsuccessful fund managers, on the average, the plans could have earned about \$2.6 million more per year. Further, investment fees, administrative and overhead expenses also could have been reduced approximately \$549,000 a year.

The audit of the City's parking citation process identified opportunities to increase revenue the first year by \$610,000 and \$480,000 each year thereafter. Our review showed the need to take stronger collection action against habitual parking offenders and to consistently cite vehicles with expired registrations. In addition, both the Police and Finance Departments needed to improve accounting, monitoring and reconciliation procedures over parking citation revenue.

Moreover, the audit of the City's special assessment district formation and financing process revealed actions that cost the City \$209,000. For example, improper accounting for interest earnings cost the City over \$70,000. The City also lost almost \$39,000 for incidental expenses on an unapproved special assessment district project. Furthermore, we found that the City spent about \$100,000 more to administer special assessment district bonds than it collected in fees and penalties.

Improve Effectiveness And Efficiency

Audit recommendations have also addressed ways auditees can improve their operations by increasing effectiveness and efficiency. The dollar value of improvements cannot always be precisely measured. However, our audits have recommended changes to improve services and programs which will reap long-term benefits for San Jose's citizens.

For example, our performance audit of the Department of Parks and Recreation's maintenance activities revealed deficiencies in the Department's maintenance task analysis. Without effective task analysis, Department management could not objectively assess staffing requirements. We also identified the need to improve the facility evaluation process and to use existing information to better manage central services and control equipment usage.

Our audit of the redevelopment site delivery process disclosed that the roles and responsibilities of the Redevelopment Agency and the Department of Neighborhood Preservation were not clearly defined. This resulted in diffused accountability, duplicated effort, and the dissemination of inaccurate and conflicting information to the public. We also found the need to implement a formal project management system to control the site delivery process in the most efficient manner possible.

Furthermore, the audit of the Airport Department's parking and shuttle bus operations disclosed that efficiency improvements could reduce the annual operating cost by more than \$1 million per year. We found that over 30 percent of the shuttle buses were riderless, overall ridership was

very low, and arrival frequency was too high. We determined that efficiency could be increased and costs reduced by revising the routes and arrival frequency according to rider demand. In addition, the audit showed that the cost of shuttle bus maintenance and repairs was excessive and that the maintenance and repair contract needed to be competitively bid.

Strengthen Controls

Over the four years, audits have also revealed ways to improve departmental and program internal controls, safeguard assets, and reduce the risk of potential liability to the City. For example, our audit of the Redevelopment Agency's 20% housing program disclosed a pervasive absence of controls over the planning, monitoring and loan approval processes, and Agency financial operations. The program lacked specific plans and adequate procedures to accomplish its housing goals. Further, the Agency lacked both sufficient information to properly evaluate loan proposals and controls over document preparation. Moreover, important documentation was not properly safeguarded against loss.

Our review of the City's automated checkwriter system disclosed that certain controls were either missing entirely, incomplete, or not performed at the most effective time. We also found the need to document and conduct a controls review of the City's accounts payable system, and provide additional controls over labor error expense accounts.

The audit of Police overtime controls concluded that the Department needed to implement added controls over paid overtime and compensatory time-off accumulations. The Department's accumulated compensatory time-

off had grown to over \$6 million and represented over 90 percent of the City's total liability. The Department lacked detailed overtime budgets and management reporting, and an effective process for authorizing overtime.

The Airport Department parking and shuttle bus audit also indicated a significant need to improve controls over its \$12 million a year parking operation. We found that the Department's primary revenue control, the automated parking equipment and computerized control system, was obsolete. System components were often broken down and system documentation was lacking. The vehicle inventory process was deficient and parking operations reports were inaccurate. As a result, these conditions exposed the Department to significant revenue losses.

Providing Objective Information

Audit reports and special studies have also provided reliable, objective and timely information to decision-makers and the public. This information has assisted the Council and the Administration in making needed policy and administrative changes, and informed the public about the management of its City government.

Our report regarding fine arts funding provided information to the Council and the Administration about the allocation of Transient Occupancy Tax funds to the Convention and Visitors Bureau, cultural groups, and the Convention and Cultural Facilities Department.

Our studies on consulting contracts let during 1984 and 1985 showed that the City Council approved 224 contracts, or contract addenda, with a

value of \$37,475,904. During the same period, the Redevelopment Agency Board approved 32 contracts or addendums worth \$5,965,758. This information provided the Council/Board with a needed perspective on this issue.

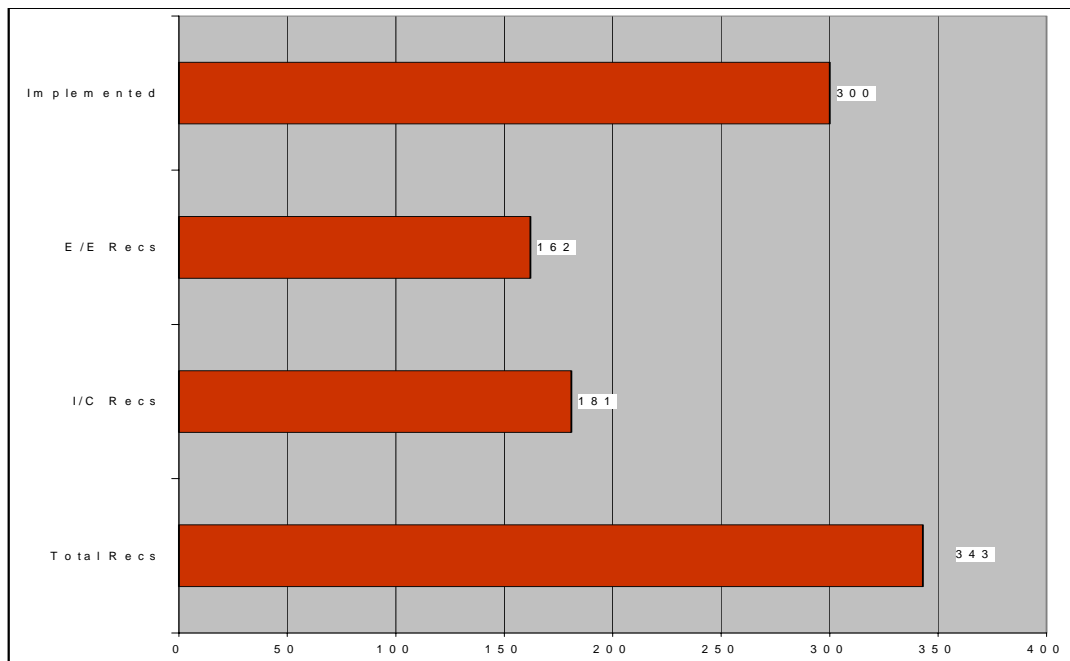
Finally, our review of contracted services showed that the City contracted for, or directly purchased, over \$183 million worth of services in 1986-87. The City executed 539 service contracts and issued 788 purchase orders. We also noted that municipal contracting for services is widespread and growing as privatization of government services becomes more common.

SUMMARY OF WORK PERFORMED **MAY 1985 THROUGH APRIL 1989**

From May 1985 through April 1989, the City Auditor's Office completed 30 fiscal/performance audits of City programs and activities, 32 information/special studies, and 8 investment compliance reviews. These activities identified an estimated \$13 million in opportunities for the City to increase revenue and/or reduce costs. In our opinion, our \$13 million estimate is conservative. Specifically, we only included the first year of identified cost savings or additional revenues when, in fact, some of these savings or revenues will be realized year after year. For the four-year period, Office expenses were approximately \$3.7 million. As a result, from May 1, 1985, through April 30, 1989, the Office exceeded its return-on-investment objective of 3 to 1.

In addition, our audit reports contained 343 recommendations to improve the economy, efficiency, effectiveness, and internal controls within City government. To date, the Administration has fully or partly implemented over 87 percent of the recommendations. TABLE III shows the total number of recommendations made, including internal control (I/C) and efficiency/effectiveness (E/E) recommendations, and the number implemented to date for the four-year period.

TABLE III
RECOMMENDATIONS MADE
May '85 – April '89



A narrative summary of these reports follows. Furthermore, beginning on page 71, Schedule 1 summarizes Office activity costs and results for the four-year period.

FISCAL/PERFORMANCE AUDIT REPORTS

Quarterly Revenue Sharing Deposit (July 1985)

Our review of the circumstances related to the under-reporting of revenue sharing receipts in April 1985 revealed that the City relied on the experience and knowledge of key personnel in the Accounting and Treasury Divisions to insure prompt and accurate recording of City banking transactions. Formal written instructions did not exist nor was training provided to other employees. As a result, when two key employees retired from the Accounting and Treasury divisions in January and March 1985, a \$2,132,775 Revenue Sharing deposit in the City's bank account went unrecorded for 49 days.

We recommended that responsibilities be defined and written procedures developed for verifying revenue vouchers, and processing incoming bank transfers.

Work Management System (August 1985)

Our review of the Administration's Work Management System revealed that certain requisite effectiveness measurement system elements were either missing or were inconsistently applied. In addition, the Administration's proposed timeline for interaction with the City Council was incongruent with the Administration's trimester performance review process. Finally, it appeared that the Work Project component of the Administration's Work Management System had the potential to constitute de facto policy or budget formulation which usurped City Council authority.

We recommended that the City Council Committee of the Whole or Standing Committees establish a formal procedure for reviewing Work Programs and Work Projects. Such a review should correspond to the Administration's trimester reporting system. In addition, we recommended that the Administration initiate a process to assess the propriety of Work Program targets and the reliability and accuracy of reported actual results.

Workers' Compensation Program (September 1985)

Our review revealed that in calculating the 1985-86 Workers' Compensation appropriation, the Administration 1) made a mathematical error which understated the necessary appropriation by \$600,000, and 2) used a methodology which understated the appropriation by an additional \$900,000, or a total of \$1.5 million. As a result, in 1985-86 an additional \$5,000,000 appropriation may have been required to fully fund the City's Workers' Compensation Program.

We recommended that the Administration consider the potential \$5,000,000 shortage in the Workers' Compensation Program when refined program needs were prepared in late September 1985.

City Venture Corporation Audit (December 1985)

We reviewed a private for-profit company that received a total of \$269,515 in Community Development Block (CDBG) grant funds from the City. The City Venture Corporation (CVC) contracted with the City to provide services to facilitate the establishment and expansion of small businesses and create jobs on the East Side of San Jose.

The review found that of the \$269,535 the City of San Jose paid to CVC, \$109,073 was for overhead costs. Our review also revealed that these overhead costs were not determined according to applicable Federal regulations. As a result, the City of San Jose was potentially liable for repaying the \$109,073 to the Federal Government.

Further, we found that the contract between the City and CVC did not contain a detailed line-item budget, which was needed to control and monitor project expenses. However, we noted that most of the direct costs charged to the project appeared reasonable and allowable. An exception was \$400 inappropriately charged for airfare to the San Jose project.

As requested, we also determined that CVC provided most, but not all, of the services required in their final contract with the City. There were no records available indicating that any businesses or jobs had been created or expanded as a result of CVC's services.

We recommended that the City secure repayment of \$109,073 for CVC corporate costs and disallow \$400 for ineligible airfare costs. In addition, the City Council should direct the Neighborhood Preservation Office to 1) require line-item budgets in all contracts with organizations

receiving CDBG funds, and 2) provide project summaries of expected benefits.

Deferred Compensation Plan (February 1986)

Our review of the Deferred Compensation Committee's administration of the City's Deferred Compensation Plan (Plan) revealed that 1) some Plan participants deferred more income than I.R.S. regulations allowed, and 2) the Committee had not monitored the Plan investment companies to ensure compliance with the terms of their City agreements. Specifically, we found that 90 Plan participants deferred more income in tax year 1984 than the IRS regulations allowed. The Personnel Department, which is responsible for monitoring employee contributions, had not developed and implemented written procedures to ensure that employees did not contribute more than the regulations allowed.

In addition, the Plan investment companies had not complied with agreement provisions intended to protect the Plan's assets. As a result, the City had no assurance that the Plan's assets were adequately insured.

The Deferred Compensation Advisory Committee, which is responsible for administering the Plan, had not monitored the investment companies because formal responsibility to do so had not been assigned. As a result, there was no City Department or employee performing this function. Further, our review found that the Deferred Compensation Advisory Committee had not developed a written policy manual to guide the implementation of the Plan's objectives and to provide consistency in administering the Plan. Finally, our review noted that the City Council

needed to resolve a conflict between the City Charter and a City Council Resolution.

We recommended the following: formal assignment of responsibility for monitoring investment companies, development of a written Plan policy manual, and development of employee contribution procedures.

City Payroll Disbursements (March 1986)

We audited the City's payroll disbursements for the six-month period from December 1984 through June 1985. The audit revealed that, of the 207 payroll payments tested, there were 40 exceptions, including eight that affected gross pay.

The sample's gross pay error occurrence rate of 3.9% exceeded that found in the previous year's sample. Most of the errors (6 of 8) were due to using an incorrect night shift premium rate that resulted in relatively minor overpayments for each affected employee. The dollar effect of the gross pay errors (\$89.20) was .037% of the total gross pay tested. In addition, the noncompliance error rate of 2.2% found in this period's sample exceeded that found in the previous year's sample.

We recommended that: the format and level of detail for labor compensation changes be standardized for payroll purposes, manual payroll changes be periodically audited, and that Department timekeepers be reoriented to timekeeping requirements.

Non-Personal Expenditures (March 1986)

Our audit of the City's 1984-85 Non-Personal Expenditures disclosed that the City could have saved at least \$8,700, and as much as \$265,500, by instituting new procedures or following established procedures relating to payment of non-personal expenditures.

We also identified various internal control weaknesses which resulted in noncompliance with established City policies and procedures. When compared to 1983-84, the 1984-85 level of accuracy and compliance with established procedures had declined significantly.

We made five recommendations regarding the establishment of voucher processing and payment request auditing procedures, record maintenance, and Departmental training for preparing payment requests.

Cash And Revenue Audit (April 1986)

Our audit of departmental petty cash and change funds for fiscal year 1984-85 covered approximately one-third of the assigned funds (40% of the total dollar value of the funds) and found that the funds were substantially intact. However, we noted that some of the fund custodians did not know how to handle cash overages or shortages because they lacked adequate City guidelines and established procedures.

In addition, our review of City department revenue deposits showed that of ten departments selected for testing, five departments did not promptly deposit revenue with the Finance Department. The late deposits included 253 checks totaling \$39,903.85 that were deposited from two to 27

days late. The largest late check was \$21,773, which was deposited ten days late. The longest delay noted was 27 days.

We recommended that the Finance Department: amend Section 252E of the City Administrative Manual to include petty cash policies and procedures, and revise the Petty Cash Reimbursement Voucher form.

City Franchised Towing (April 1986)

Our financial statement review for the nine franchise towing companies indicated that as a group the companies lost approximately \$390,000 on City-generated towing business during 1985. Further analysis revealed that emergency tows were more profitable than abandoned vehicle tows and that only three of the nine franchise towing companies made an overall profit on City-generated tows.

In addition, various franchisees reported that rapidly escalating insurance costs justified a significant increase of the City's maximum allowable tow charge of \$49. They also voiced concern that the 13 percent franchise fee was onerous given the lack of profitability on City-generated business. Our analysis revealed that the imposition of the franchise fee did not mean the difference between a franchisee making a profit or incurring a loss on City-generated tows. Finally, our analysis showed that abandoned vehicles were a major source of franchisee operating losses.

We recommended that the Administration consider recommending the following to the City Council: provide some temporary relief from franchise fees to the towing companies, pay a temporary subsidy to the companies to

partially offset their costs, and impose stringent recordkeeping requirements on the towing companies.

Parking Operations (June 1, 1986)

Our audit of the City's Parking Operations included on-street metered parking and off-street parking lots and garages, but excluded airport parking facilities. The review revealed a pervasive absence of adequate controls which made parking revenue susceptible to undetected theft. Due to the inadequacy of internal controls, we expanded our tests. Assuming our test results were representative of weekly parking meter collections, our observed loss approximated \$14,000 per year. It should be noted that our test of parking meter collections did not prove conclusively that revenue losses did in fact occur.

Our review also indicated that the current parking meter zones were not in consonance with the Municipal Code. Specifically, some designated parking meter zones did not have parking meters. We estimated that if as few as 100 parking meters were installed in these zones, the City could collect an additional \$52,000 per year in parking meter revenues.

Our review of the City's off-street parking revealed that internal controls over revenues were insufficient because of non-existent or malfunctioning equipment and inadequate ticket accounting procedures. This situation had existed since at least 1983 and had resulted in reliance on parking attendants' handwritten notations to account for customers' parking time and fees.

Our review also disclosed inadequate City monitoring of the contract with the garage and lot operator. As a result, significant contract noncompliances for the operation and maintenance of the City's parking facilities occurred without City detection or corrective action being taken. Observed noncompliances included a failure to account for parking tickets and City-owned equipment, and to provide proof of required insurance.

Finally, our review disclosed that the transfers of two parking lots to the San Jose Redevelopment Agency were not recorded in the parking system's accounting records.

We made 32 specific recommendations covering such things as: replacing parking meter equipment, revising collection and maintenance procedures, records maintenance, bank deposit handling, initiating new ordinances, equipment inventory control, and monitoring contracts with lot operators.

City Purchasing Audit (August 1986)

Our review of the City's purchasing process revealed that the Department of General Services' Materials Management Division (Purchasing) could improve the timeliness of the process. Specifically, we found opportunities for Purchasing to 1) improve responsiveness to purchase requisitions and monitoring vendor performance, 2) reduce central warehouse processing time and operating costs, and 3) modify its performance goals and management reports to adequately evaluate its performance. As a result, Purchasing did not always get needed goods and services to departments in a timely manner.

We made 12 recommendations covering such items as: increasing petty cash funds, developing and/or revising procedures, providing training to City departments, and implementing a vendor performance and disciplinary system.

City's Capital Budget Administration (November 1986)

Our review of the City's administration of the Capital Budget revealed that central management capability was lacking and that the Capital Budget significantly overstated the City's ability to complete capital projects. Specifically, we found that there was no central authority that actively monitored and managed the implementation of the Capital Budget. Further, our analysis of 1984-85 capital expenditures showed the following:

- Less than half of the \$356.5 million budgeted for the 1984-85 Capital Improvement Program was spent or committed.

- Less than two-thirds of the \$45.5 million budgeted for capital projects that were rebudgeted from 1983-84 was spent or committed.
- Only 42 percent of the \$227.8 million budgeted for multi-year projects was spent or committed.
- Only 40 percent of the \$35.5 million budgeted for new one-year capital projects was spent or committed.
- Less than 20 percent of the \$10.9 million budgeted for mid-year additions to the 1984-85 Capital Budget was spent or committed.

As a result, the Capital Budget was viewed as creating unrealistic expectations in the minds of the City Council, City officials, and the citizens of San Jose.

We recommended that the City Manager establish a central Capital Budget management capability, improve cost and reporting controls, and include in the Capital Budget only those projects that the City could realistically accommodate.

Parks And Recreation's Maintenance Activities (December 1986)

Our review revealed that the Department could improve maintenance activities in several ways. We found that deficiencies in the Department's task frequency analysis impaired management's ability to accurately assess maintenance staffing needs. Analysis charts did not reflect actual park conditions and were replete with errors. In addition, the Department's facility evaluation lacked objectivity and did not systematically identify park

deficiencies. Evaluation criteria and procedures needed to be established. Further, the Department needed to use its existing information better to manage central services activities and control equipment usage. As a result, the Department was not effectively and efficiently using its resources.

We recommended that the Department revise and automate its task frequency analysis process, use management staff to perform formal facility evaluations, develop a facility deficiency data base, and better use control logs for management information purposes.

City's Utility Tax Collection Process (March 1987)

Our audit revealed instances where the City failed to collect utility taxes that were due, allowed invalid utility tax adjustments, and did not collect the required interest charges on late utility tax remittances. Due to insufficient monitoring of tax receipts, Finance failed to collect interest and penalties on late tax payments. In addition, Finance had been late in notifying the utility companies of new property annexations and the utility companies had been late in applying the tax. Further, Finance needed to improve controls over the utility tax exemption process. As a result of these deficiencies, we estimated that the City potentially lost approximately \$300,000 during 1985-86.

We recommended that the Municipal Code be amended concerning the receipt and application of tax payments, and that the Code penalty provisions be enforced. In addition, we recommended that Finance establish a tax receipt monitoring procedure, initiate collection of invalid or overstated tax adjustments, and develop tax exemption controls.

Redevelopment Agency's 20% Housing Program (June 1987)

Our audit revealed that the Redevelopment Agency needed to improve the Housing Program planning process, implement adequate and sufficient loan process and accounting controls, and establish a borrower monitoring program. The Agency had not sufficiently assessed the housing needs of low and moderate income people in San Jose, or developed adequate plans, procedures and budgets to accomplish the program's goals. In addition, the Agency lacked adequate and sufficient controls over the housing loan process and financial records. Further, the Agency had not monitored borrowers to ensure compliance with all the terms of their loan agreements. As a result, there was no assurance that available funds and assets were properly safeguarded and effectively used.

We recommended that the Agency assign higher priority to the housing program, establish a formal housing needs assessment process with plans and budgets, develop written procedures and forms to analyze and approve housing proposals and loans, and monitor borrowers. In addition, we recommended that the Agency establish written accounting policies and procedures and provide appropriate training to staff.

Non-Personal Expenditures For FY 1985-86 (June 1987)

Our audit revealed that the value of lost discounts and overpayments decreased significantly from those of the prior year because of improved accuracy of payment voucher preparation and review. However, lost discounts continued to result from City department delays in processing

documentation on goods and services received. The audit also disclosed that the number of late payments significantly increased and some late charges were paid. Further, we found a limited number of isolated internal control exceptions which were not systemic deficiencies. As a result, overall performance in this area had improved but additional improvements could be made.

We recommended several internal control changes to improve operational effectiveness and efficiency.

**City And Redevelopment Agency
Investment Program (June 1987)**

Our audit disclosed several approaches which could enhance portfolio yields without creating undue risk. Accordingly, we found that the City has foregone between \$1.4 and \$2.8 million per year in potential earnings by maintaining a more conservative investment position than risk or liquidity considerations required. In addition, the audit revealed that the current investment policy limited Treasury's ability to manage the City and Agency portfolios. Further, we determined that merging the City and Agency portfolios would increase earnings. As a result, investment management and results could be improved.

We recommended developing a strategy to extend the average portfolio maturities, revising the investment policy, and merging the City and Agency portfolios.

City's Checkwriter System (July 1987)

Our review of the controls over the City's automated checkwriter system included a limited review of the accounts payable system. We found that the checkwriter controls needed improvement, the accounts payable system needed to be documented and reviewed for controls and efficiency, and that labor error suspense accounts needed supervision. Specifically, the audit disclosed that certain checkwriter controls were either missing entirely, were incomplete, or were not performed at the most effective time. In addition, the accounts payable system lacked appropriate segregation of duties and desk instructions, and systems documentation was inadequate. Further, the audit revealed that charges in the labor error suspense accounts remained uncorrected for long periods of time and that some charges were made twice. As a result, adequate and appropriate controls needed to be implemented to ensure the integrity and safety of the City's financial systems.

We recommended the implementation of 19 internal controls to prevent, detect and correct errors. These included controlling access to data files, reconciling check stock and use logs, properly segregating duties, issuing desktop instructions, documenting the accounts payable system and reviewing it for controls and efficiency, and monitoring labor error suspense account balances.

Information Systems' Contingency Plan (November 1987)

This audit was limited to evaluating the contingency plans for critical electronic data processing (EDP) activities performed by the Information Systems Department. Due to the Department's response to our initial

inquiries, we determined that the existing plan needed to be updated. Since the Department agreed to update the plan by March 1988, we terminated our review and issued this report. Specifically, we found that the Department operates three types of computer facilities, but that only one type of facility has a written contingency plan. Moreover, the one plan needed to be updated and other critical EDP activities performed in the city needed to be included in the plan. As a result, the City is exposed to the risk that critical EDP activities may be lost for periods of time that exceed tolerable limits.

We recommended that all critical EDP applications in the City be identified and that contingency plans be prepared by March 1988.

**City's Retirement Plans And The City
And Redevelopment Agency's Cash
Management Activities (December 1987)**

Our review revealed that opportunities existed to significantly increase retirement fund earnings and reduce administrative costs. Specifically, we found that if the retirement plans' equity portfolio had been invested in an equity index fund over the last five years, the plans could have earned about \$13 million more. Also, investment management fees could have been reduced by about \$1.5 million over the same time period.

In addition, the City's General Fund could have saved about \$229,000 a year by charging the plans their pro rata share of Personnel Department staff, space and materials. Further, the City's cash forecasting data are inaccurate, thereby reducing forecasting effectiveness.

We also found that over a 19-month period the Agency lost the opportunity to earn \$70,000 in investment income by maintaining excessive bank balances. Furthermore, because of ineffective cash forecasting methods, we estimated that the Agency lost interest earnings of \$500,000 to \$800,000 annually. Moreover, our review revealed that the Agency was slow to secure over \$14 million in surplus funds from the bond trustee which could have been used to increase the Agency's portfolio earnings.

We recommended that the Retirement Plan Boards consider using passive management for a portion of their equity portfolio and that the plans absorb their share of the administrative costs. In addition, we recommended that the City and Agency improve their cash forecasting accuracy, and that the Agency establish procedures to obtain surplus funds from the bond trustee in a timely manner.

Redevelopment Site Delivery Process (December 1987)

The Redevelopment Agency and the Department of Neighborhood Preservation jointly administer the site delivery process. Our audit revealed that the Agency and the Department needed to clearly define their respective roles and responsibilities in this process. We found that they have duplicated each other's efforts, provided the public with confusing and conflicting information, and failed to effectively control rental property. In addition, the Department needed to develop a formal project management system to effectively and efficiently relocate displaced residents as a result of site delivery activities. Due to these conditions, we found numerous opportunities to improve the site delivery and resident relocation process.

We recommended that the Agency and the Department jointly develop a written memorandum of understanding to define their respective roles on future site delivery projects. In addition, we recommended that they develop formal rent control policies and procedures, establish a project management system for planning and monitoring future projects, and formulate relocation records requirements. Finally, we recommended that staff receive training on relocation procedures and pertinent laws and regulations relating to the site delivery process.

The Agency's Capital Improvement Program (December 1987)

Our audit revealed that opportunities existed to enhance the Redevelopment Agency Board's ability to assess the status of the Redevelopment Capital Program. The Agency had not developed quantifiable goals and objectives for each redevelopment area and its capital program progress reports did not provide a clear status of the program. In addition, the Agency needed to improve its financial accountability over the Capital Budget. We found that many of the budgeted projects had not been started and funds had not been encumbered or spent as planned. Further, the funds were being controlled at the project area level and not at the project level as budgeted. As a result, Capital Program progress was difficult to measure accurately and public spending expectations were not being met.

We recommended that the Agency develop definitive and quantifiable goals and objectives for each project area and prepare a work program to accomplish them. In addition, we recommended various budgeting and reporting controls to provide more accurate and timely information to the Agency Board.

A Review Of The City's Payroll Transactions - Overtime Expenditures (May 1988)

For this review, we extracted and analyzed payroll data for the City's payroll year ended December 26, 1987. We found that during 1987 the City paid \$3.9 million for 175,600 overtime hours worked for pay. In addition, City employees were credited with 343,500 hours of compensatory time worth \$6.3 million. The total value of all overtime worked in 1987 was

\$10,223,800. Also, in accordance with related memorandums of agreement, \$431,700 was paid for aged compensatory time in lieu of time taken off. Police Department employees earned the majority of 1987 overtime.

Our analysis also revealed that 500 of the City's 6,271 employees worked overtime worth from 15.0% to 67.2% of their regular earnings. The analysis showed that eight percent of the workforce represented 40% of the total value of all the overtime worked during 1987. Of these 500 employees, 280 were uniformed Police personnel. They alone earned overtime valued at \$2,581,330. While these employees comprised only 19% of the Department's workforce, they earned 48.5% of the Department's \$5,322,400 spent for overtime in 1987.

In addition, we computed the City's total compensatory time liability as of the end of 1987. We found that the total liability was 319,268 hours worth approximately \$6,357,000. The Police Department's liability represented about 87% of the total liability. We also identified the number of potential retirees and calculated their compensatory time payoff amounts. As a result, we recommended that the City Administration develop information on all potential upcoming retirements to determine the extent of potential compensatory time payoffs.

An Audit Of The City Of San Jose's Parking Citation Process (June 1988)

In this audit, we reviewed the parking citation collection procedures used by the Police and Finance Departments, and Vertical Management Systems, the City's subcontractor. The audit revealed that the Police and Finance Departments could improve their parking citation accounting, monitoring and reconciliation procedures. We recommended added controls that could increase the City's parking citation revenue by about \$610,000.

The audit also disclosed confusion over the legality of including "fix it" violations on parking citations, which had resulted in numerous citizen complaints. Moreover, the audit indicated that Vertical Management Systems lacked contractually-required insurance certifications, fidelity and performance bonds.

We made 12 recommendations to the Police and Finance Departments to improve the parking citation process. These included implementing a parking citation amnesty program for habitual parking offenders, providing parking control checkers with necessary information, redesigning forms, using direct collection approaches, and developing reconciliation procedures.

A Performance Audit Of Airport Operations (November 1988)

This audit addressed the areas of Flight Operations Safety, Emergency Planning, Ramp Driving Permits, and Airfield Access Control. Within each area, our audit revealed opportunities for the Airport Department to improve operations. For example, we found that Airport Operations staff did not

always document airfield deficiencies with a work request or follow-up to ensure that deficiencies were corrected. In addition, we noted that the Department needed to institute a commercial fueler inspection program to comply with Federal regulations. Furthermore, the Department needed to improve its administration and enforcement of ramp driving, and its controls over airfield access cards.

We made 10 recommendations to improve airfield operations. We recommended that Department staff prepare a work order form disclosing airfield deficiencies, and that staff follow-up to ensure that deficiencies are corrected and reported in a timely manner. In addition, we recommended that the Department establish appropriate procedures for fueling, controlling ramp driving, and airfield access cards.

An Audit Of The Police Department Overtime Controls (November 1988)

This audit revealed that the Department's accumulated compensatory time-off liability exceeded \$6 million and represented almost 90% of the City's total compensatory time-off liability. The condition existed because of the nature of police work and the Department's inadequate overtime budget and related policies. The Department had implemented controls to manage the overtime, but it lacked detailed budgets, an effective authorization process, and management reporting. In addition, the audit identified an opportunity to reduce overtime related to the transporting and accompanying arrestees to Valley Medical Center. The report also provided pertinent information on holiday compensation for San Jose police officers.

We made 15 recommendations to the City Administration and the Department to improve overtime controls. The recommendations addressed developing a compensatory time-off policy and overtime authorization procedures, identifying sources for funding police overtime, realistically budgeting overtime expenses, and conducting overtime analysis and reporting.

An Audit Of The City's Special Assessment District Formation And Financing Process (November 1988)

This audit disclosed opportunities to improve controls over Special Assessment District activities. Specifically, we found that some Special Assessment District Fund accounts incurred negative cash balances which reduced the interest earnings distributed to other funds in the City's investment pool. In addition, Finance had not developed written procedures for investing special assessment bond proceeds subject to arbitrage rebates. We also identified opportunities to eliminate General Fund financial risk when establishing special districts. Improvements were needed because in the past Public Works had exposed the General Fund unnecessarily to potential losses of up to \$346,342.

The audit also revealed that the City spent almost \$100,000 more to administer Special Assessment District bonds than it collected in fees and penalties. The audit further provided additional information on the status of the North Coyote Valley project.

We made 11 recommendations to the Finance and Public Works Departments to improve the Special Assessment District formation and

financing process. The recommendations concerned developing procedures to account for and review Special Assessment Fund balances, and invest bond proceeds; arranging a collection advance from the county; requiring developers to advance the City funds for incidental expenses; and discontinuing the practice of incurring district formation expenses before a formal agreement is signed with a developer.

An Audit Of The Department Of Convention And Cultural Facilities (January 1989)

This audit indicated that, in general, the Department's system of operational internal controls were adequate. However, we did identify opportunities for the Department to improve its controls. For example, the Department needed to implement added procedures to protect against revenue losses from underreporting and event cancellations, and property and casualty losses. The Department also needed to improve its controls over the food and beverage concessionaire, and facility access. In addition, as an enterprise fund activity, the Department should attempt to recover its costs through user charges. However, we found that the Department lacked a formal marketing plan and did not track maintenance and other event costs.

We made 19 recommendations to the Department to improve operational controls. The recommendations addressed control forms design, concessionaire contract compliance and sales reconciliation issues, facility key control, staff training, and marketing plan development.

A Review Of Manually Prepared Payroll Checks (February 1989)

This audit revealed that during 1987 the City issued 2,723 manual payroll checks worth more than \$57 million. Our review indicated that the Finance Department control system provides reasonable assurance that these checks are adequately protected against inherent check writing threats. However, we determined that two added review procedures would further improve control over the manual check preparation process. Finally, we noted that Finance needed to document critical manual check control procedures. Such documentation helps to ensure that staff properly executes important procedures and protects against loss of institutional knowledge when key employees leave City service.

We recommended that the Finance Department prepare written policies and procedures for the manual payroll checking process, and that appropriate authorizations and supervisory reviews are conducted.

An Audit Of The San Jose Airport Department's Parking Shuttle Bus Operations (May 1989)

This audit revealed that the Department could reduce the cost of airport shuttle bus service by more than \$1 million per year and that parking lot operations need added controls. We observed that over 30% of shuttle buses travel empty, buses average less than three riders per trip, and bus arrival time intervals are too short. We also determined that San Jose's cost per shuttle bus rider was at least twice as great as that for the San Francisco and Oakland airports. Further, we found that San Jose's shuttle bus maintenance costs were excessive. The audit disclosed that 1988-89

maintenance costs averaged nearly \$41,000 per shuttle bus, more than the original price for many of the vehicles.

In addition, our review showed that critical parking operation revenue controls did not always function properly. Specifically, we found that the automatic parking equipment and computerized revenue control system were obsolete and that individual components frequently broke down. We noted numerous errors on vehicle inventory lists, the vehicle inventory process lacked adequate separation of duties, and inventory instructions were not always followed. Furthermore, daily parking operations reports were inaccurate. As a result, these conditions exposed the Department to significant revenue losses. The Department recognized the need for a new revenue control system and was in the process of implementing one. However, our control recommendations were still applicable to the new system.

We made 18 recommendations to the Airport Department to improve shuttle bus efficiency and parking lot revenue controls. The recommendations concerned competitively bidding the shuttle bus maintenance contract, analyzing and modifying shuttle bus service levels and routes, improving data processing contingency measures, formalizing vehicle inventory procedures, and revising key management reports summarizing daily parking transactions.

INVESTMENT COMPLIANCE REVIEWS

City And Redevelopment Agency Investment Reviews (September 1985 - July 1987)

We issued a series of eight reports covering compliance of the City and Redevelopment Agency investments with the City and Redevelopment Agency's Investment Policies, safekeeping of securities, and investment documentation. A summary of the findings and recommendations follows.

Review Of September 1985 Transactions (November 1985)

This review revealed no exceptions to Policy requirements regarding types of instrument, maturity, issuer ratings and portfolio mix. However, we did note that noncompliance with the City's Investment Policy might go undetected for as long as three weeks. This could occur because Finance staff did not maintain or utilize the MONEymax system, the City's primary tool for managing its investment portfolio, on a timely basis.

In addition, improvements were required to insure prompt recordation of investment revenues. Further, procedural changes were needed for: documentation of daily investment decisions, compliance with Policy requirements regarding prequalification of financial institutions, and proper reconciliation of investment transactions.

We made 12 recommendations regarding: timely data entry, staff training in the use of MONEYMAX, procedure development, maintenance of proper accounting documentation, and verification of investment information.

Review Of October 1985 Transactions (January 1986)

This review revealed that the Administration did not comply with 7 of the 33 policy elements tested. These observed noncompliances were with Policy provisions regarding investment safety and security.

In addition, the Finance Department had, through its written procedures and/or its investment decisions, made certain interpretations of the City's Investment Policy which in our opinion needed to be reviewed.

Further, we identified specific weaknesses in internal control. For example, Finance did not always maintain adequate documentation for investment transactions. In some instances, Finance did not require the documentation, while in others, the documentation was required, but not consistently maintained. Such documentation is necessary to facilitate 1) third-party review of investment activities, 2) day-to-day investment activities, and 3) management oversight of the investment program.

Finally, we followed-up on implementation of recommendations contained in our review of September 1985 investment transactions. We found that, in most instances, Finance was implementing recommendations and that improvements had resulted. We made 12 new recommendations regarding: execution of safekeeping agreements, collateralization of

repurchase agreements, development of specific control procedures, accounting of receipts, and maintenance of the MONEymax system.

**Review Of November And December 1985
Transactions (February 1986)**

Our review indicated that the Finance Department had complied with Policy provisions regarding authorized instruments, maturity limits and issuer rating. Finance had reported all Policy exceptions other than those which require Policy interpretation. Finance had implemented procedures to monitor repurchase collateral and was developing the requisite formal agreements for safekeeping, dealer services and repurchase transactions. In addition, we determined that Finance was taking steps to comply with other prior audit recommendations.

Finally, we identified the following Policy areas which required Finance to either obtain legal interpretation or document its own Policy interpretations: 1) legal requirements for an independent third party custodian, 2) legal review of dealer provided master repurchase agreements, 3) documentation of Finance Policy interpretations, and 4) identification and analysis of State and Federal laws applicable to the Investment program.

We recommended that Finance do the following: obtain a legal opinion regarding a third-party custodian for securities, execute dealer agreements, document its policy interpretations, and compile and analyze state and federal laws applicable to the investment program.

Review Of January And February 1986 Transactions (April 1986)

This review indicated that Finance had generally complied with Investment Policy requirements. Noncompliance continued in areas which required more in-depth staff work and legal assistance. These areas included evaluating dealer financial condition, executing formal dealer and safekeeping agreements and expediting delivery of transaction confirmations. Improvements in documentation and control procedures had occurred.

The review also indicated that Finance was taking steps to comply with prior audit recommendations. Of the 25 recommendations contained in the September through December 1985 investment reviews, seven were fully implemented, two were combined with other recommendations, five were implemented, and eleven were in progress.

Review Of March And April 1986 Transactions (June 1986)

This review indicated that Finance had generally complied with Investment Policy requirements. We did note, however, three instances of technical noncompliance in the areas of dealer prequalification and issuer rating. Noncompliance continued in areas which include evaluating dealer financial condition, executing formal dealer and safekeeping agreements and expediting delivery of transaction confirmations. Improvements in documentation and control procedures had occurred.

Our review also indicated that of the 25 recommendations contained in the investment reviews of September through December 1985 and January-February 1986, thirteen were fully implemented, two were combined with other recommendations, four were implemented, and six were in progress.

In addition, we also recommended that Finance 1) obtain Private Sector Panel approval of alternative dealer financial information requirements, 2) include instructions regarding policy in the investment procedures, and 3) report all technical exceptions to the investment policy to the Finance Committee.

Review Of May And June 1986 Transactions (August 1986)

This review indicated that Finance had generally complied with Investment Policy requirements. We did note 1) untimely City confirmation of investment purchase transactions; and 2) that Redevelopment Accounting was not date-stamping dealer confirmations, safekeeping receipts/releases, debit and credit advices.

Noncompliance continued in areas including evaluating dealer financial condition, executing formal dealer and safekeeping agreements, and expediting delivery of transaction confirmations. Improvements in documentation and control procedures had occurred.

Our review also indicated that of the 28 recommendations contained in the investment reviews of September through December 1985, and

January through April 1986, fourteen had been fully implemented, two were combined with other recommendations, four were implemented, and eight were in progress.

In addition, we also recommended that Treasury log the dates telephone transactions are mailed to banks, and Redevelopment date-stamp as received dealer confirmations, safekeeping receipts/releases, debit and credit advices.

Review Of July And August 1986 Transactions (September 1986)

This review indicated that Finance had generally complied with Investment Policy requirements. Noncompliance continued in areas including evaluating dealer financial condition, and executing formal dealer and safekeeping agreements. Improvements in documentation and control procedures had occurred.

Our review also indicated that of the 30 recommendations contained in investment reviews of September through December 1985, and January through June 1986, nineteen had been fully implemented, two were combined with other recommendations, one was implemented, and eight were in progress.

Review Of December 1986, January And July 1987 Transactions (December 1987)

This review revealed that Finance had generally complied with the investment policy requirements. However, we noted one exception relative

to an under-collateralizing of a Redevelopment Agency repurchase agreement. Noncompliance continued in areas which required more in-depth staff work and legal assistance. These areas included evaluating dealer financial condition and executing formal master repurchase and safekeeping agreements.

In addition, this report contained the results of our followup on the implementation of prior compliance recommendations. Of the 30 recommendations made over the last two years, we found that 24 had been fully implemented, with the balance in the process of being implemented.

INFORMATION/SPECIAL STUDIES

Implementation Of The Fair Labor Standards Act (August 1985)

At the City Administration's request, the City Auditor reviewed the City's methodology for computing overtime to ensure compliance with the Federal Act. The review revealed a variety of methodological problems concerning compensatory time, paid absences, observance of holidays, and issues relating specifically to Fire Suppression personnel.

Review Of Weed Abatement Program Billings (October 1985)

A review of program billings for the period 1 July 1985 through 22 September 1985 indicated that the outside contractor significantly overbilled the City for services during this time period. Based on varying assumptions, we concluded that the City had been overbilled at least \$37,000 and possibly as much as \$91,300 for the period.

Analysis Of Alternative Redevelopment Agency Financing Options (October 1985)

At the request of the Redevelopment Agency Board, the City Auditor made an oral presentation on the advantages and disadvantages of using Tax Allocation Bonds versus Certificates of Participation to finance Redevelopment Agency projects.

Requirements For Auditing The EDA Revolving Loan Fund (January 1986)

In this requirements review, the City Auditor suggested measures to facilitate the Fund's future auditability. It was suggested that the Fund Administrator 1) develop measurable performance indicators, 2) define specific terms, 3) specify the content of loan files, and 4) maintain specific records.

Analysis Of The City Of San Jose Redevelopment Agency Tax Increment Revenues From The Merged Area (February 1986)

At the request of the Redevelopment Agency Board, the City Auditor reviewed the Redevelopment Agency's five-year revenue projections. The City Auditor retained the services of SRI International to assist in this review. The SRI report chronicled the development of the Agency's revenue forecasting model and critiqued current Agency assumptions. The report concluded that the Agency's worst case forecast may be the best one to use for forecasting future Agency tax increments.

The City Auditor's oral report expanded on SRI's analysis and questioned the validity of the Agency's land, construction, absorption and tax rate assumptions.

Review Of Business Relocation (March 1986)

The City Auditor reviewed a business relocation payment claim and found that the claimant lacked required tax certification. Without such

certification, payment in lieu of moving and relocation expenses could not be authorized.

Agenda Analysis (May And June 1986)

At City Council request, the City Auditor's Office prepared analyses of four Council Agendas for May 6, 13, 20, and June 3, 1986. A total of 89 items were analyzed based upon financial and economic impact criteria. These four Agenda Analyses contained recommendations to reduce expenditures by \$223,434.

City Budget Analysis (June 1986)

Also at the Council's request, the City Auditor's Office was directed to prepare an analysis of the proposed 1986-87 City Budget. Due to workload considerations, the City Auditor contracted the analysis to the Harvey Rose Accountancy Corporation of San Francisco. As a result of the analysis, the following recommendations were made:

- The Public Works budget should be reduced \$2,553,549.
- Finance's Parking Division budget should be reduced \$20,381.
- City Council should request that the Administration and the City Clerk report whether high personnel vacancy rates are likely to continue into FY 1986-87. Further, the City Council should adjust the vacancy savings amounts in the budget accordingly.
- City Council should request that the Administration explain the significant base budget increases.

- City Council should direct that City budget system issues be addressed by 1) Finance's proposed accounting system study, 2) the proposed Public Works management study, and 3) OMB.

Review Of Federated Retirement Fund Interest Earning (June 1986)

A review of Finance Department procedures indicated that the Retirement Fund was not being credited with interest earnings from the City's investment program. We also found that the Fund was not earning interest on the City's contribution to the Retirement Fund. As a result, we estimated the lost interest to be about \$28,000 over a 12-month period.

The Activities And Accomplishments Of The Office Of The City Auditor - May 1985 Through September 1986 (December 1986)

This report covered a period of tremendous growth and change for the Office of the City Auditor. The Office expanded the scope and volume of its work. The City Auditor created new auditor classifications, new positions were authorized, and new staff hired. The Office was renovated and refurnished, and new equipment added. In addition, the audit report style and content were changed to make the reports more readable and aesthetically pleasing.

During this time period, productivity was high. The Office produced 34 reports containing 133 recommendations. Eight of the reports contained recommendations to either reduce costs or increase revenues amounting to \$3,223,700. In addition, these reports contained 100 recommendations to improve efficiency or effectiveness.

A Review Of Consulting Contracts Awarded During Calendar Years 1984 And 1985 (December 1986)

In response to a City Council directive, the City Auditor compiled selective information on consulting contracts over \$20,000 for the two-year period. The study primarily focused on those contracts which required the preparation and submission of a tangible product such as a report, study or plan. We did not attempt to evaluate contractor performance.

Our study revealed that during 1984 and 1985, the City Council approved 224 consulting contracts, or addendums to contracts, with a value of at least \$20,000. The total stated value of the contracts was \$37,475,904. Of the 224 contracts, 129 or 58 percent were for services. The stated value of the service contracts was \$19,735,502. The remaining 95 contracts required the contractor to deliver a tangible product. The stated value of these contracts was \$17,740,402.

Of the 95 contracts that required the production of a tangible product, 70 resulted in the delivery of such a product. For the remaining 25 contracts, 20 were still in progress, 2 were on hold, and 3 were terminated.

Of the 21 reports produced, 15 contained 208 recommendations, of which 129 or 60 percent were fully implemented. Departments reported that of the remaining recommendations, 55 were still in progress, 12 were on hold, and 12 were rejected for various reasons.

We recommended that the City Council consider imposing followup reporting requirements for future consulting contracts.

Quarterly Followup Report On Audit Recommendations (Class 1 And 2 only) As Of October 31, 1986 (December 1986)

This report summarized the implementation status of 32 audit recommendations made to the Finance Department for the three months ended October 31, 1986. The report showed that of 32 recommendations made: 8 were implemented, 9 were partly implemented, 12 were unimplemented, and 3 were deferred until a verifiable transaction occurred.

An Addendum To A Review Of Consulting Contracts Awarded During Calendar Years 1984 And 1985 (February 1987)

As an addendum to our December 1986 review, we compiled a listing of the consulting contracts of \$20,000 or more approved by the Redevelopment Agency Board during the 1984 and 1985 calendar years. Our study revealed that the Board approved 32 such consulting contracts, or addendums to contracts, with a total stated value of \$5,965,758. Of these contracts, 11 or 34 percent were for services. The total stated value of the service contracts was \$4,355,500 or 73 percent of the total stated value of all the approved consulting contracts for the two-year period. The remaining 21 contracts required the contractor to deliver a tangible product. The stated value of these contracts was \$1,610,258 or 27 percent of the total stated values of all the consulting contracts approved during 1984 and 1985.

Of the 21 tangible-product contracts, 20 resulted in the delivery of the specified product. The other contract was still in progress. Of the 20 products received, 19 were reports, 12 of which contained 59 recommendations. Almost 80 percent (47) of the recommendations were

fully implemented, 11 were still in the process of implementation, and one was rejected.

We recommended that the Board consider imposing followup reporting requirements for future consulting contracts.

**Quarterly Followup Report On Audit Recommendations
(Class 1, 2 And 3) As Of January 31, 1987 (March 1987)**

This report summarized the implementation status of 76 audit recommendations made to the City Manager's Office, Finance Department, General Services Department, and the Parks and Recreation Department for the three months ended January 31, 1987. The report showed the following results:

	<u>Implemented</u>	<u>Partly Implemented</u>	<u>Not Implemented</u>
City Manager (5)	0	4	1
Finance (36)	17	15	4
General Services (19)	10	2	7
Parks & Recreation (16)	0	0	16

Fine Arts Funding Study (May 1987)

In response to a City Council directive, the City Auditor reviewed the allocation of Transient Occupancy Tax (TOT) funds to various recipients, including the Fine Arts Division of the Convention and Cultural Facilities Department. Our review revealed that by using a full accrual accounting method for budget purposes, recipient funding levels could be maintained, \$359,500 could be returned to the General Fund, and money could be left in the TOT fund as a reserve. In addition, we found that past allocations were made according to the ordinance-prescribed formula, but differences resulted. Further, the use of the ordinance-prescribed 12 percent cap restriction affected the allocation process. Moreover, we noted that the cultural groups had contributed significant funding from their allocations to support the Fine Arts Division.

We recommended that the Administration use a full accrual accounting method for TOT Fund budget purposes, and that the City Council amend City Code Section 4.72.060 to provide that the TOT Fund allocations to all recipients be based upon the estimated revenues for the budget year.

**Quarterly Followup Report On Audit Recommendations
(Class 1 And 2 Only) As Of April 30, 1987 (July 1987)**

This report summarized the implementation status of 31 audit recommendations made to the Finance Department for the three months ended April 30, 1987. The report showed that of the 31 recommendations made: 9 were implemented, 7 were partly implemented, 14 were unimplemented, and 1 was dropped.

**Quarterly Followup Report On Audit Recommendations
(Class 1, 2 And 3) As Of July 31, 1987 (October 1987)**

This report summarized the implementation status of 103 audit recommendations made to seven City departments/offices for the three months ended July 31, 1987. The report showed the following results:

	<u>Implemented</u>	<u>Partly Implemented</u>	<u>Not Implemented</u>
Finance (41)	15	12	14
Redevelopment Agency (26)	7	13	6
Parks & Recreation (16)	5	0	11
General Services (9)	3	1	5
City Manager (8)	5	3	0
Information Systems (2)	1	0	1
Traffic Operations (1)	1	0	0

**Quarterly Followup Report On
Audit Recommendations (Class 1 And 2 Only)
As Of October 31, 1987 (December 1987)**

This report summarized the implementation status of 38 audit recommendations made to the Finance Department, Redevelopment Agency,

Traffic Operations Department, and the City Manager's Office for the three months ended October 31, 1987. The report showed the following results:

	<u>Implemented</u>	<u>Partly Implemented</u>	<u>Not Implemented</u>
Finance (22)	3	7	12
Redevelopment Agency (13)	9	4	0
Traffic Operations (2)	1	0	1
City Manager (1)	0	1	0

**The Activities And Accomplishments
Of The Office Of The City Auditor - October 1986
Through December 1987 (January 1988)**

During this time period, the Office implemented a new auditing strategy and underwent its first Charter-required performance audit. In response to newly proposed auditing standards, the Office implemented an auditing strategy that focuses on risk assessment and evaluating the sufficiency and adequacy of the auditee's internal controls. In addition, a management representative from the California Auditor General's Office conducted the first performance audit of the Office. This review resulted in an unqualified (clean) opinion of the Office's system of quality control, thereby providing assurance that our audits meet generally accepted governmental auditing standards.

Office productivity remained high despite reduced budget and staff for most of 1987. The Office completed 11 fiscal/performance audits, 8 informational studies, and 1 investment compliance review. These 20 reports contained 125 recommendations to improve operational effectiveness, efficiency and internal controls. Moreover, these audits

identified over \$7.9 million in opportunities to either increase revenues or reduce costs.

**Quarterly Follow-up Report On
Audit Recommendations For The Three Months
Ended January 31, 1988 (March 1988)**

This report summarized the implementation status of 56 audit recommendations made to seven City departments/offices for the three months ended January 31, 1988. The report showed that of the recommendations made: 29 were not implemented, 12 were partly implemented, and 15 were fully implemented.

A Review Of Contracted Services (May 1988)

This informational study revealed that during 1986-87, the City executed 539 service contracts worth \$179,337,151 and issued 788 purchase orders for services worth \$4,306,420. In total, the City contracted for or purchased \$183,643,571 worth of services for the fiscal year. In addition, our review of literature concerning privatization of government services showed that virtually anything government does, private sector business also can do.

**Quarterly Follow-up Report On
Audit Recommendations For The
Three Months Ended April 30, 1988 (June 1988)**

This report summarized the implementation status of 35 audit recommendations to seven City departments/offices for the three months

ended April 30, 1988. The report showed that of the recommendations made: 15 were not implemented, 15 were partly implemented, and 5 were fully implemented.

**Quarterly Follow-up Report On
Audit Recommendations For The
Three Months Ended July 31, 1988 (September 1988)**

This report summarized the implementation status of 85 audit recommendations made to nine City departments/offices for the three months ended July 31, 1988. The report showed that of the recommendations made: 33 were not implemented, 24 were partly implemented, and 28 were fully implemented.

**Quarterly Follow-up Report On
Audit Recommendations For The
Three Months Ended October 31, 1988 (December 1988)**

This report summarized the implementation status of 28 audit recommendations made to eight City departments/offices for the three months ended October 31, 1988. The report showed that of the recommendations made: 6 were not implemented, 17 were partly implemented, and 5 were fully implemented.

**Quarterly Follow-up Report On
Audit Recommendations For The
Three Months Ended January 31, 1989 (March 1989)**

This report summarized the implementation status of 107 audit recommendations made to 11 City departments/offices for the three months

ended January 31, 1989. The report showed that of the recommendations made: 48 were not implemented, 33 were partly implemented, and 26 were fully implemented. In addition, 11 recommendations made to the Parks & Recreation Department were dropped because they were no longer relevant.

A Review Of The Silicon Valley Information Center (May 1989)

In this study, we reviewed the cost of operating the Silicon Valley Information Center (SVIC) and the possibility of charging user-fees to recover costs. The SVIC opened in 1986 to provide a centralized information resource to respond to questions about Silicon Valley industries and issues. In 1988-89, the SVIC will cost about \$292,000 to operate. We found that SVIC usage has grown significantly since 1987 when it served almost 6,000 patrons. In 1988, total usage jumped to 8,771 patrons, an increase of almost 47 percent. Most of the users we surveyed were job-seekers or individuals in the service industry who were researching potential clients. Almost everyone interviewed gave the SVIC the highest rating possible. We also analyzed database charges to determine whether the SVIC complied with Department policy on the use of online databases. Overall, we found that the SVIC complied with Department policy and did not perform online searches that cost more than \$20. Finally, it should be noted that the Department was evaluating opportunities to provide a fully cost-recoverable research service.